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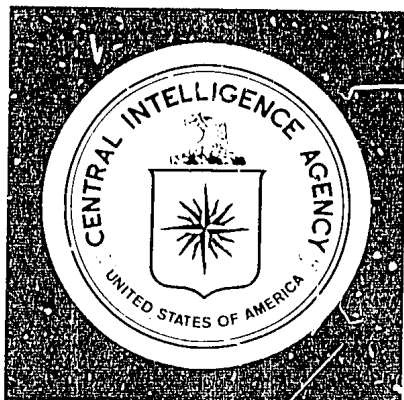
Economic Intelligence Weekly

11 Jun 75

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ECONOMIC INTELLIGENCE WEEKLY

11 June 1975

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Overview

Unemployment Continues To Rise Rapidly in Most Developed Countries, despite a slowing of the industrial slump. West Germany's jobless rate climbed to 5.4% in May, up from 4.7% in April and double the year-earlier level. France reports an 80% increase in unemployment during the last year, to 3.9% of the labor force. British joblessness, 3.7% in May, is up by one-half from last year. Canada's unemployment rate has reached 7.2%, a 14-year high, and is likely to climb further. Of the smaller developed countries, Denmark has suffered the sharpest rise in its unemployment rate -- from 2.4% to nearly 10% within a year.

The EC Commission met last week with representatives of employer groups and the European Trade Union Confederation to discuss the job situation. Particular concern was voiced over the rapid rise in unemployment among the young, up nearly 50% over the last 12 months and expected to go higher. EC Commission Vice President Hillery called for job-creating programs and stiffer restrictions on the employment of illegal third-country migrant workers.

Fear that French unemployment will jump to politically explosive levels when this year's graduates enter the labor force has prompted President Giscard d'Estaing to offer financial incentives for the hiring of young people. Under his unusual program, firms will receive \$125 for each person under 25 hired during the next six months. Dissatisfied with recent progress against inflation, Paris also has imposed a temporary price freeze on selected consumer goods.

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The Contraction In Export Volume Appears To Be Slowing in the major developed countries. A less rapid decline in trade among the seven countries, which accounts for 45% of their total exports, underlies the change. Because import volume has fallen more rapidly than export volume, the Big Seven had a marked improvement in their combined trade balance in the first quarter. Their aggregate surplus jumped from \$1.9 billion in the fourth quarter of 1974 to \$7.8 billion in the first quarter of 1975. Italy, France, and the United States shifted from deficit to surplus.

US-Soviet Trade Has Continued To Grow despite Moscow's denunciation of the US-Soviet trade agreement last January, but the US share of new Soviet orders for machinery has declined. US exports reached \$276 million in the first quarter of 1975, compared with \$165 million a year earlier -- largely because of contracts signed in 1973-74. (Confidential)

Articles

DEVELOPED COUNTRIES: SLUMP IN EXPORT VOLUME SLOWS

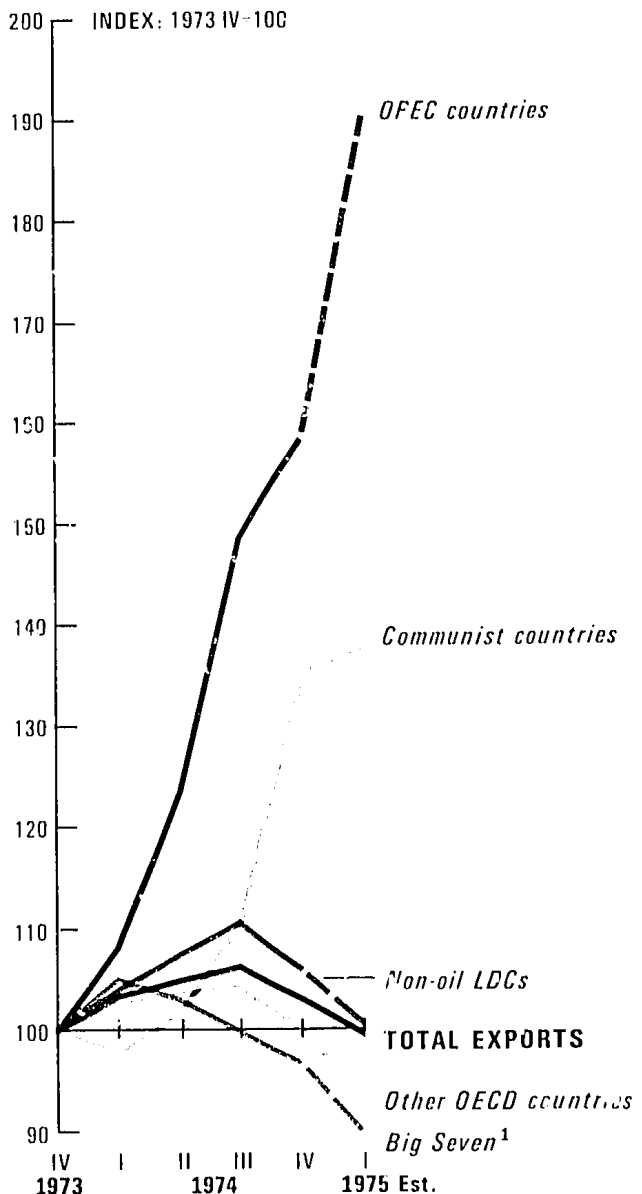
The decline in the export volume of the major developed countries slowed to an annual rate of only 4% in March and April, compared with 8% in September-November and 18% in December-February.* The slowing of the trade contraction mirrors the more moderate rate of decline in output in the Big Seven as they approach the bottom of the recession. A sharp pickup in trade volume is unlikely until economic activity begins to expand in several of the larger economies; a decline in sales to non-oil LDCs and smaller industrial countries is expected to more than offset gains in shipments to OPEC states. Consequently, hopes for export-led recovery generally are dim in the large industrial countries.

Mixed Performance

The export decline for the Big Seven as a group began to moderate late in the first quarter, after the steepest part of the recession had passed. Trends among the individual countries, however, have varied considerably.

* Rates of change in trade volume are calculated from three-month moving averages to minimize the effect of anomalies in monthly data.

Trends in Export Volume, by Market



¹The Big Seven—Canada, France, Italy, Japan, the United Kingdom, the United States, and West Germany.

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- French exports, after falling at an annual rate of 16% from August to February, declined at a 8% rate in March-April.
- Italian shipments dropped sharply in September and trended gradually downward in succeeding months.

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Geographic Patterns

Depressed demand in the Big Seven has been the major factor in the contraction in exports. Trade among themselves accounts for 45% of their total exports. Their aggregate imports dropped at a 24% annual rate from August to February—nearly twice the rate of the falloff in their exports—and at a 14% rate in March-April. The steepest declines in import demand occurred in Italy, which took the strongest measures to cure oil-related payments problems, and in Japan and the United States, where excessive inventories aggravated the slump in final demand.

With demand slack in the Big Seven, producers in these countries have become more dependent on sales elsewhere. Shipments to OPEC grew rapidly in 1974 and continued to rise in early 1975. Sales to the Communist countries also have continued to rise, though at a lower rate this year. Buoyancy in these markets has had little impact on total export volume, however, because OPEC and Communist countries together account for only 11% of Big Seven exports.

The downward trend in their exports to the smaller developed countries since mid-1974 probably accelerated in the first quarter. Sales to the non-oil LDCs held up well until late last year, when payments problems began to bite. In the fourth

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quarter, the deficit of these countries with OECD nations as a group reached an annual rate of \$60 billion. The volume of Big Seven exports to the non-oil LDCs declined by 5% in the fourth quarter of 1974 and probably dropped further in early 1975 because of the countries' reduced ability to pay.

Impact on Trade Balances

The trade balances of most of the major developed countries have improved sharply this year, as the recession induced a steeper drop in imports than in exports. The total trade surplus of the Big Seven swelled to \$7.8 billion in the first quarter of 1975, compared with \$1.9 billion in the preceding quarter. Improvement was most marked in France and Italy, where the balances shifted from large deficits to surpluses.

Prospects

Although the sharp decline in sales volume of the Big Seven seems to be over, we do not foresee substantial growth in exports through the end of the year. Even if final demand increases moderately in the major countries, the pickup in demand for foreign products probably will be small because of the overhang in inventories.

Exports of the major developed countries to the rest of the world probably will continue to slip in spite of increased shipments to OPEC and Communist countries. The recent decline in sales to non-oil LDCs and the smaller developed countries is likely to accelerate. Much of the improvement in the combined current account balance of the Big Seven has come at the expense of these countries, compounding their payments problems. Moreover, the smaller developed countries are generally lagging behind the major industrial countries in the current business cycle and thus can be expected to recover later. (For Official Use Only) ■

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FRANCE: ANOTHER CAUTIOUS STEP ON THE PATH TO REFLATION

The French have taken a small step to stimulate the economy, by offering financial inducements for firms to hire young people. This highly political move follows enactment of a package of investment incentives in April. In an effort to further reduce the inflation rate, President Giscard d'Estaing has linked the new employment measure with a limited price freeze.

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The French economy has been sliding downhill for nine months, triggering fears that registered unemployment would soon pass the politically touchy level of 1 million - 4-1/2% of the labor force. Industrial production has plummeted 13% from the August peak, while unemployment has nearly doubled, to 800,000. Initially, the recession was accompanied by a substantial, continuing deceleration in price rises from the 18% rate of early 1974. Since December, the inflation rate has stubbornly held steady at 10%, mainly because of rising wage costs.

The only bright spot in recent months has been the balance of payments. Because of the recession, imports have dropped more steeply than exports, which have been buoyed by sales to OPEC and Communist countries. As a result the trade account has moved back into surplus. This improvement is threatened, however, by the continued rise in domestic prices and the 17% trade-weighted appreciation of the franc over the past year.

Paris has aimed its new stimulative measure at the potentially most troublesome aspect of the unemployment problem. Firms will receive \$125 for each person under 25 hired during the next six months. The program, which the government estimates will inject several hundred million dollars into the economy, should encourage firms to favor new entrants into the labor force in their hiring.

Inflation will be attacked through a price freeze on selected consumer goods and through controls on profit margins for various other products. Giscard has long been skeptical about the effectiveness of price controls but presumably considers them expedient at the present time. He hopes to minimize any depressing effect on investment by concentrating the controls on industries in which declining material costs have improved profit margins. Some products, notably clothing, probably were chosen because of their heavy weight in the consumer price index; other products on the list are largely imported.

French policy has gradually become more expansionary over the past six months. Steps were taken in early 1975 to stimulate the housing sector and boost incomes of poorer groups. The most important action to date is the April package of investment tax credits and subsidized loans, which should inject \$2 billion into the economy this year. Paris also has cut the discount rate several times in recent months and allowed credit conditions to ease.

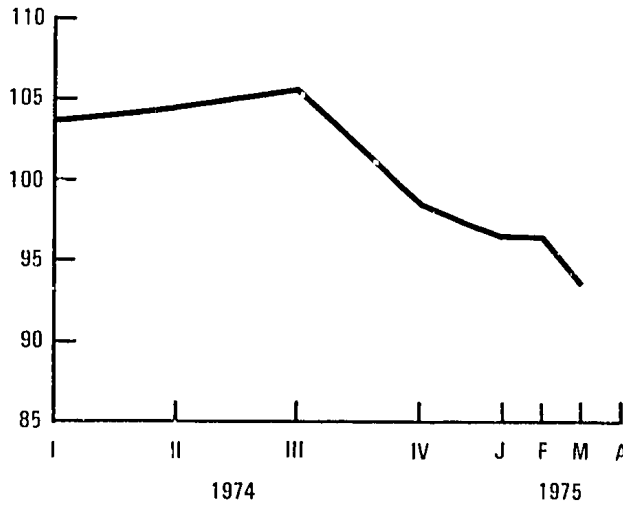
Giscard hopes that his present policies, assisted by economic recovery in West Germany and the United States, will pull France out of the recession. He expects a moderate upturn during the summer and hopes for a strong recovery in the fall as exports pick up and inventory rebuilding begins. If at that time signs of

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France: Economic Indicators

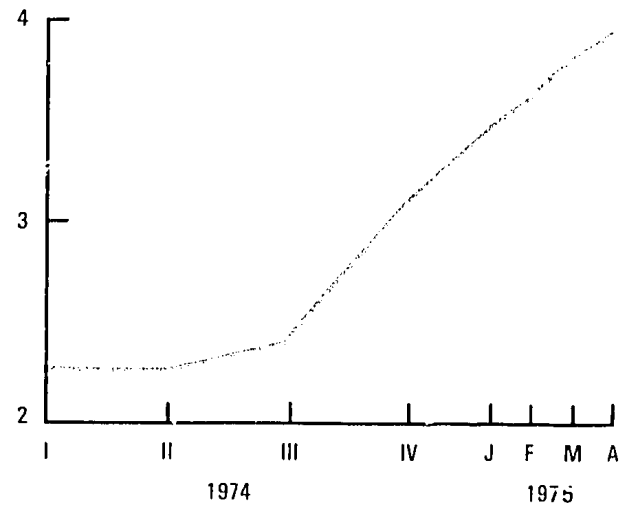
Industrial Production

Index: 1973=100 (seasonally adjusted)



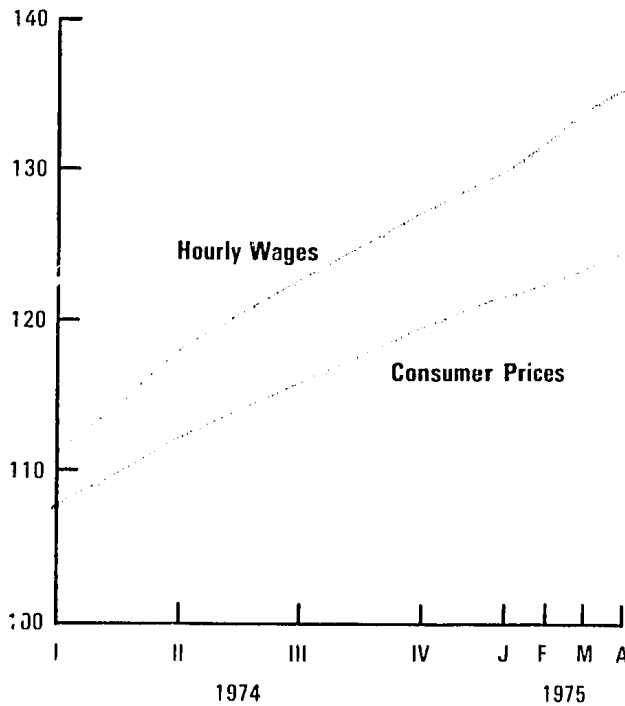
Unemployment Rate

Percent (seasonally adjusted)



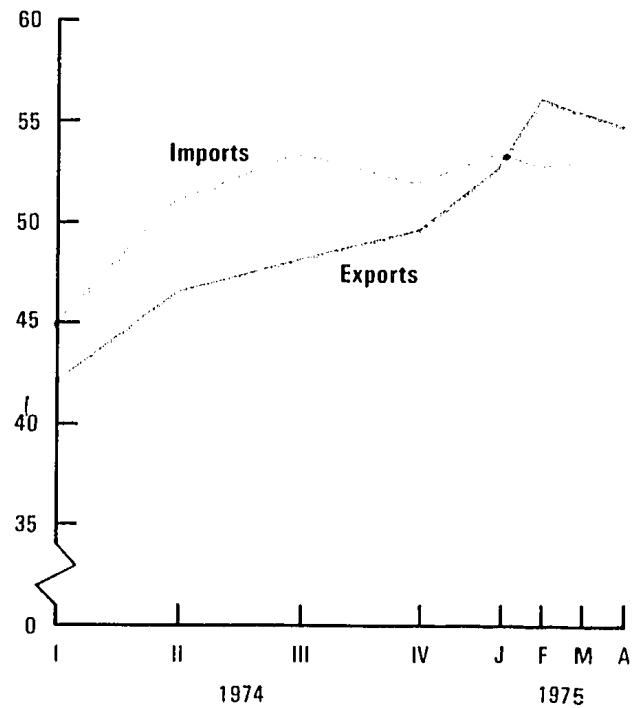
Prices and Wages

Index: 1973=100 (seasonally adjusted)



Trade

Billion US\$ at annual rate (seasonally adjusted)



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an upturn remain weak, further expansionary measures probably will be taken after the August vacation period. Giscard's political base is too thin to risk the image of inaction in the face of France's worst postwar recession. (For Official Use Only)

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US-SOVIET TRADE: MIXED TRENDS

The US share of Soviet machinery orders has dropped since Moscow's denunciation of the US-Soviet trade agreement in January. US exports to the USSR nevertheless continue to grow, largely on the basis of contracts won in 1973-74. In long-distance lobbying for MFN status and an end to restrictions on Eximbank credits, Kremlin spokesmen warn that low-interest, long-term credits available in Western Europe and Japan are eroding the US competitive position. Privately, various officials involved in foreign trade and industrial development concede that the United States remains the preferred source for many high-technology items and that Moscow will find a way to pay for them. The US share of Soviet orders could recover if current contract negotiations are successful.

Trade in 1975

In the first quarter of 1975, US exports to the Soviet Union were up by \$111 million, or 67%, from the first quarter of 1974. Grain accounted for one-half of the increase. At the same time, US imports of Soviet goods slipped, especially purchases of oil and platinum-group metals. The US trade surplus of \$200 million in the first quarter was almost as large as the surplus in all of 1974.

US exports probably will be substantially higher in 1975 than in 1974 because of a spurt in shipments of machinery and equipment ordered earlier. Chances nonetheless are slight that sales will approach the 1973 record of \$1.2 billion unless the Soviet grain crop is poor, which at present seems unlikely.

Soviet Equipment Orders

Soviet orders from the United States in January-April 1975 approximated \$160 million, or 14% of all known orders from the West, compared with a 20% average in 1973-74. The decline probably reflects the fact that US financing has become less competitive. With Eximbank credits no longer available because of provisions in the 1974 Trade Act, Moscow must pay cash for US goods or obtain credits from private sources, at much higher interest rates than are required for

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government-backed credits. Since late 1974, the Soviet Union has received \$6.7 billion in low-interest, long-term lines of credit from France, the United Kingdom, Italy, and Canada. Earlier in 1974, it obtained \$1 billion in credits of this sort from Japan.

US-Soviet Trade

	Million US \$			
	Year		First Quarter	
	1973	1974	1974	1975
US exports	1,187	612	165	276
Grain	837	282	94	149
Soybeans	67
Machinery and equipment	204	225	51	74
Chemicals	17	28	5	15
Iron and steel	14	8	5	5
Woodpulp	3	5	1	6
Raw hides and skins	1	12	2	Negl.
Other	44	52	7	27
US imports	214	350	99	78
Oil and oil products	76	106	41	32
Platinum-group metals	75	134	41	18
Diamonds and other precious stones	17	12	3	2
Chrome ore	6	9	1	4
Nickel	11	40	1	12
Titanium	4	10	2	3
Other	25	39	10	7

Note: US Department of Commerce statistics.

Soviet Machinery and Equipment Orders Placed in the West

	Million US \$			Percentage Distribution	
	1973	1974	Jan-Apr	1973-74	Jan-Apr
			1975	Average	1975
Total	2,270	4,307	1,154	100	100
United States	505	790	161	20	14
West Germany	645	1,011	242	25	21
France	400	880	140	19	12
Japan	205	664	169	13	15
United Kingdom	155	252	32	6	3
Italy	130	436	233	9	20
Sweden	145	87	92	4	8
Other	85	187	85	4	7

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The most important orders received by US firms include \$23 million worth of equipment for plants to produce artificial fur, a \$47 million plant to make bearings for passenger-car engines, \$18 million worth of crawler tractors and spare parts, and a \$20 million order for bulldozers to be used in ore mining at Norilsk. Soviet orders for \$700 million worth of compressors and other equipment for the Orenburg pipeline may be signed shortly, and discussions still are under way on other Soviet purchases of plant and equipment valued at almost \$1 billion.

Meanwhile, Moscow has blamed US trade policy for the reported switch of a \$50 million order for an air traffic control system from a US to a Swedish supplier. The USSR also has canceled a US contract to provide computer equipment for the Chiboksary tractor plant, on the grounds that its needs can be met under French and British lines of credit. (Confidential No Foreign Dissem)

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USSR: PROGRESS OF THE GRAIN CROP

Drought in parts of the spring grain area has prompted a 5 million-ton reduction in our estimate of the total Soviet grain crop in 1975, to 215 million tons. Such a harvest still would exceed domestic requirements and export commitments by about 5 million tons.

Crop conditions in most of the European USSR – the principal winter grain area – are good to excellent. Rain fell in most of the area during late May, replenishing soil moisture and ensuring high yields. The winter grain harvest has just begun in the south. We expect a winter grain crop of 70 million tons, 6-1/2 million tons above the 1973 record.

The outlook for spring grains remains mixed. By 2 June, 93 million hectares – 95% of the planned area – had been sown. Sowing operations began earlier than normal because spring arrived early and less reseeded than usual was needed in winterkilled fields. Although bad weather impeded sowing during the first half of May, work on spring grain still is about on schedule. The total harvested area should be the largest since 1964.

Moisture levels in the eastern New Lands area and in western Siberia are excellent, making record spring grain yields likely in these areas. In the Volga valley, southern Urals, and western Kazakhstan, soil moisture is critically low; estimated yields have now been reduced to three-fourths of the long-term average. Our present

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USSR: Harvested Grain Area

	Million Hectares					
	1966-70 Average	1971	1972	1973	1974	1975 Forecast
Total	122.1	117.9	120.1	126.7	127.2	130
Of which:						
Wheat	67.2	64.0	58.5	63.1	59.7	60

forecast of a spring grain crop of 145 million tons presupposes that the dry spell in these areas will break within five or six weeks, when the grain will be heading. Moisture is critical at this stage of plant development. In the absence of rain, yields of spring grain will be cut and our estimate of the Soviet crop will have to be reduced accordingly. (Confidential) ■

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ROMANIA: PRESIDENT CEAUSESCU VISITS WASHINGTON

Romanian Party Leader Ceausescu is scheduled to talk today with President Ford during a short stopover in Washington. Ceausescu probably will be particularly interested in the status of Congressional approval of the US-Romanian Trade Agreement.

Because of difficulties in export markets and a growing need for long-term, low-interest credits, the Romanians are eagerly awaiting approval of the Agreement, signed earlier this year. The Agreement would provide MFN status and restore Eximbank financing, which was suspended under the 1974 Trade Act.

US approval of the Trade Agreement apparently has taken on political overtones in Romania. Minister of Foreign Trade Patan said that Bucharest signed in spite of opposition within the leadership – opposition that presumably is at least partly the result of the linkage of expanded trade with liberalized emigration quotas in Romania. This opposition may have been reinforced by the recent demonstrations staged in New York and Washington by Jews seeking to get relatives out of Romania.

Spurred by authorization of Exim credits, US-Romanian trade boomed in 1972-74. Trade in the first three months of 1975 declined, however, compared with a year earlier. Romanian imports from the United States rose only 3%, because

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a sharp fall in purchases of equipment and cotton offset increases in feedgrain purchases. Bucharest is reluctant to buy cotton so long as textiles are difficult to market abroad. Romanian exports to the United States dropped by 37% in the first quarter, largely as a result of lower US demand for petroleum products.

The Romanians are negotiating two large purchases that depend on the availability of Exim credits. A Boeing proposal to sell Bucharest three 707s worth \$60 million expires on 30 June. Offset deliveries of about \$5 million worth of Romanian components, which are part of the package, would require MFN status to be economically feasible. Rollway Bearings, one of the firms Minister of Heavy Industry Avram visited in April, has tentatively proposed to sell Romania a \$52 million bearing plant. Under the agreement, Rollway would – over a 10-year period – have to take \$50 million worth of bearings produced in the facility. (Confidential No Foreign Dissem)■

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Notes

China: Trade Retrenchment in 1975*

In 1974, recession abroad held Chinese exports to \$6.3 billion while imports spurted ahead to \$7.4 billion. Although trade with Communist countries continued to show a surplus, the trade deficit with other countries soared to a record \$1.5 billion and the payments balance with hard currency areas went into the red. Weak foreign demand and Peking's desire to reduce the trade deficit will hold Chinese trade in 1975 to around last year's level. Lower demand for traditional exports will offset most of the increase in petroleum deliveries. Cuts in imports, particularly of agricultural products, should narrow the trade deficit. (Confidential)

Ecuador May Curb Imports

Reduced oil revenues and a continuing rapid rise in purchases abroad are forcing Ecuador to consider import curbs. Quito's disputes with the Texaco-Gulf consortium and a break in the Trans-Andean pipeline cut export earnings in the first quarter to about \$175 million, while imports rose to an estimated \$230 million. Even if the maximum allowable oil production of 210,000 b/d is maintained through the yearend, export earnings in 1975 will reach only \$925 million, compared with a prospective import bill of more than \$1 billion. Import curbs might be confined initially to luxury items such as automobiles and household appliances, with more stringent controls being forced on the government later. (Confidential)

* For further discussion, see ER IR 75-17, *China: Foreign Trade Entrenchment in 1975*, June 1975. (Secret No Foreign Dissem).

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Publications of Interest*

Export Refining Centers of the World
(A (ER) 75-66, June 1975, Unclassified)

This handbook is a compilation of articles from *International Oil Developments* on five major export refining centers, in the Caribbean, Italy, the Persian Gulf area, Rotterdam, and Singapore. The articles discuss such matters as crude oil supply, refining and desulfurization capacity, ownership of facilities, and the volume of product exports.

Argentina: Impact of Peronist Economic Policies on US Investors
(ER IM 75-11, June 1975, Confidential No Foreign Dissem)

This memorandum examines the deterioration of the climate for US investment during the past two years under the Peronists and assesses the short-term prospects for foreign investors.

China's Merchant Fleet Expansion Since 1971
(ER RP 75-16, June 1975, Secret No Foreign Dissem)

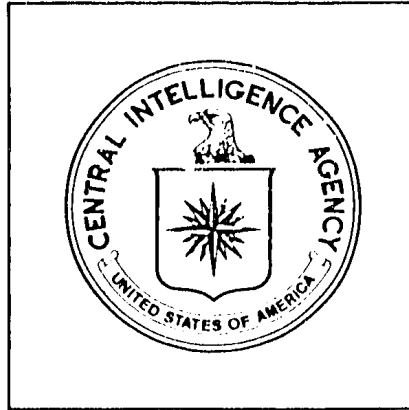
This publication describes the rapid growth of China's international merchant fleet since the end of 1971. It presents new data on the fleet's acquisitions, composition, and role in Chinese foreign trade. The publication also includes a review of all Chinese maritime assets and of the outlook for expansion.

* Copies of this publication may be ordered by calling [REDACTED] Code 143, Extension 7234.

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ECONOMIC INDICATORS

Prepared by

The Office of Economic Research

June 11, 1975

Foreword

The *Economic Indicators* provide up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the *Economic Indicators* are updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks - or sometimes months - before receipt of official statistical publications.

Comments and queries regarding the *Economic Indicators* are welcomed. They may be directed to [REDACTED] the Office of Economic Research, Code 143, Extension 7402 or 351-7402.

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